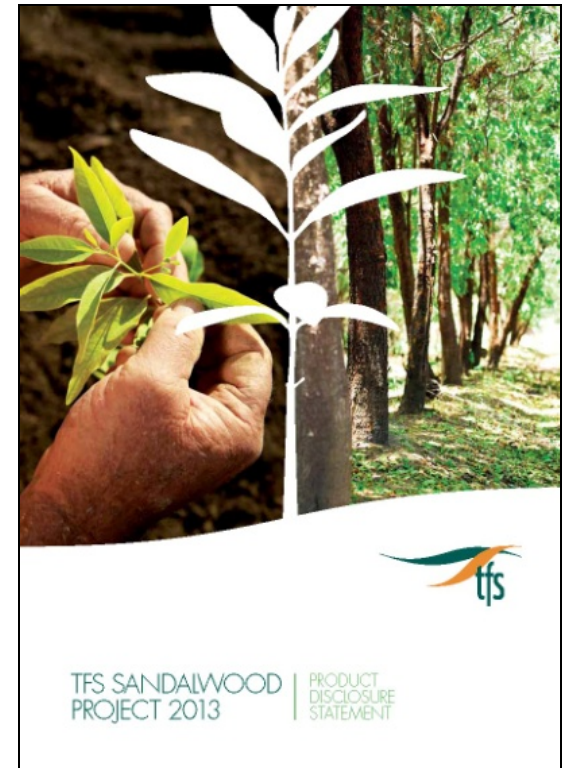




TFS Sandalwood Project 2013



Vertically
Integrated
Sandalwood
Company



TFS Sandalwood Project 2013 - Why?

- ✓ Investment in a **high value commodity** showing exceptionally strong demand / supply dynamics
- ✓ Indian Sandalwood offers **multiple products** with strong demand from **multiple markets**
- ✓ Investment managed by the **world's leading Sandalwood company** with an unrivalled market position protected by very high barriers to entry
- ✓ Investment product continually updated with **new investor protections**
- ✓ All investments **fully tax deductible** (ATO Product Ruling 2012/29)
- ✓ When combined with financing, has the potential to **release significant cash** for use for other investments or reduction of non-deductable debt



What is Indian Sandalwood?

Indian Sandalwood is one of the world's longest traded commodities and most valuable tropical hardwoods

- Indian Sandalwood (*Santalum album*) is a small to medium-sized evergreen tree, growing up to 20m high
 - Generally grows in open forest and is a semi-parasitic plant that uses nutrients from host species to help it grow
- Renowned for its distinctive fragrance, heartwood found at the core of Indian Sandalwood has a variety of applications and end markets
- The most valuable component produced from Sandalwood is Sandalwood oil which is produced through the process of distillation
- The premium quality oil distilled from the heartwood is used in fine fragrances, beauty products, medicines, incense and flavoring agents for chewing products in India
- Heartwood timber is used for religious worship and ceremonies and in a wide range of wood-based consumer products
- Sandalwood sapwood and left-over heartwood are used in incense and religious cremations

Heartwood of Indian Sandalwood

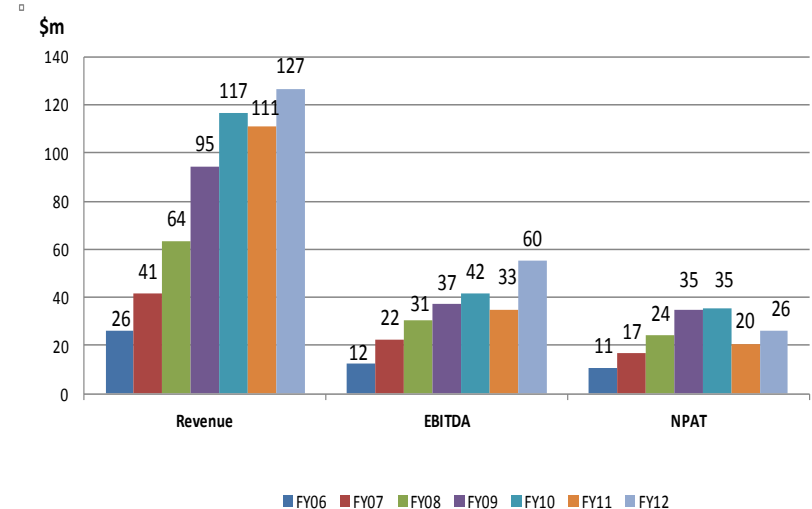


Who is TFS?

Business Description

- Largest grower and manager of sustainable Indian Sandalwood plantations in the world
- Head office in Perth, WA / ASX listed since 2004 (Code: TFC)
- Vertically integrated company comprising large-scale cultivation, plantation and processing operations
- Uniquely positioned to capitalise on favourable global supply / demand dynamics and forecast pricing of Indian Sandalwood heartwood and oil
- Backed by 15 years of government trials, TFS commenced commercial plantations 14 year ago and now manages over 6,500ha in prime agricultural areas across Northern Australia
- Raised US\$150m Senior Secured Bond in 2011 (maturing 2018) with strong capital market and institutional investor support
- First commercial harvest scheduled for late CY13
- Indian Sandalwood investment opportunities for both retail (fully tax deductible) and institutional investors

Historical Results & Share Price Movements



History of TFS



- **1998** **Using Government research and tax incentives, TFS establish first plantings in ORIA, WA**
 - Indian Sandalwood Oil sells for ~US\$360 / kg
- **2004** **Small plantings over the previous five years reflect pioneering nature of species in plantation framework**
- **2004** **IPO with a market cap of \$31m reflects confidence in end markets and plantation capabilities**
- **2007** **Acquisition of Kingston Rest (KR) farm for plantings of 2,000 ha**
 - Management practices improve leading to rapid rise in survival rates
 - Equity raising of \$15m
- **2008** **A milestone year for TFS**
 - Record plantings and survival rates
 - Acquire Mt Romance processing plant and embark on vertical integration strategy
 - Significant investment in forestry R&D
 - Develop global sales team for Sandalwood product markets
- **2009** **Create wholesale investment product (Beyond Carbon) to diversify away from MIS**
 - Equity raising of \$28m
- **2010** **KR becomes Australia' largest irrigation project development completed on schedule and budget**
 - Indian Sandalwood Oil sells for ~US\$2,000 / kg
 - Secured Beyond Carbon investment from one of the most prestigious endowment funds in the USA and the world's largest Sovereign Wealth Fund
- **2011** **A year that sets TFS up to take the next step**
 - Annual Planting capacity reaches 1,500 ha. Total estate under management reaches 5,000 ha
 - Secures balance sheet with US\$150m Secured Notes. Equity raising of \$38m
 - Trial harvest validates basic forestry assumptions
 - Planning commences for first harvest in 2013
 - TFS sells first Kununurra Santalum Album oil for \$4,000 per kg
- **2012** **Estate reaches 6,500 ha across WA, NT & Qld**
- **2013** **First Harvest to commence**
 - Heartwood prices expect to be more than double initial expectations
 - Clinical trials for acne treatment using Sandalwood Oil are successful leading to launch of first retail pharmaceutical product

Key Value Drivers



Funding

- US\$150m Senior Note strengthens balance sheet
- No maintenance / performance covenants
- Capacity to acquire and develop strategic land requirements

Securing Land

- Acquired ~4,500 ha in WA, Qld & NT
- Funding enables land bank to be developed to meet demands of institutional investors
- Aim to source 4-5 year land bank to enable planting up to 2,000 ha pa

Capital Management

- Wholesale and Retail Investment products drive recurring income stream
- Robust institutional demand dependent on available land
- Revised retail offering with enhanced investor protections
- TFS builds its equity in sandalwood estate to over 20% of total plantations

Harvest Yield

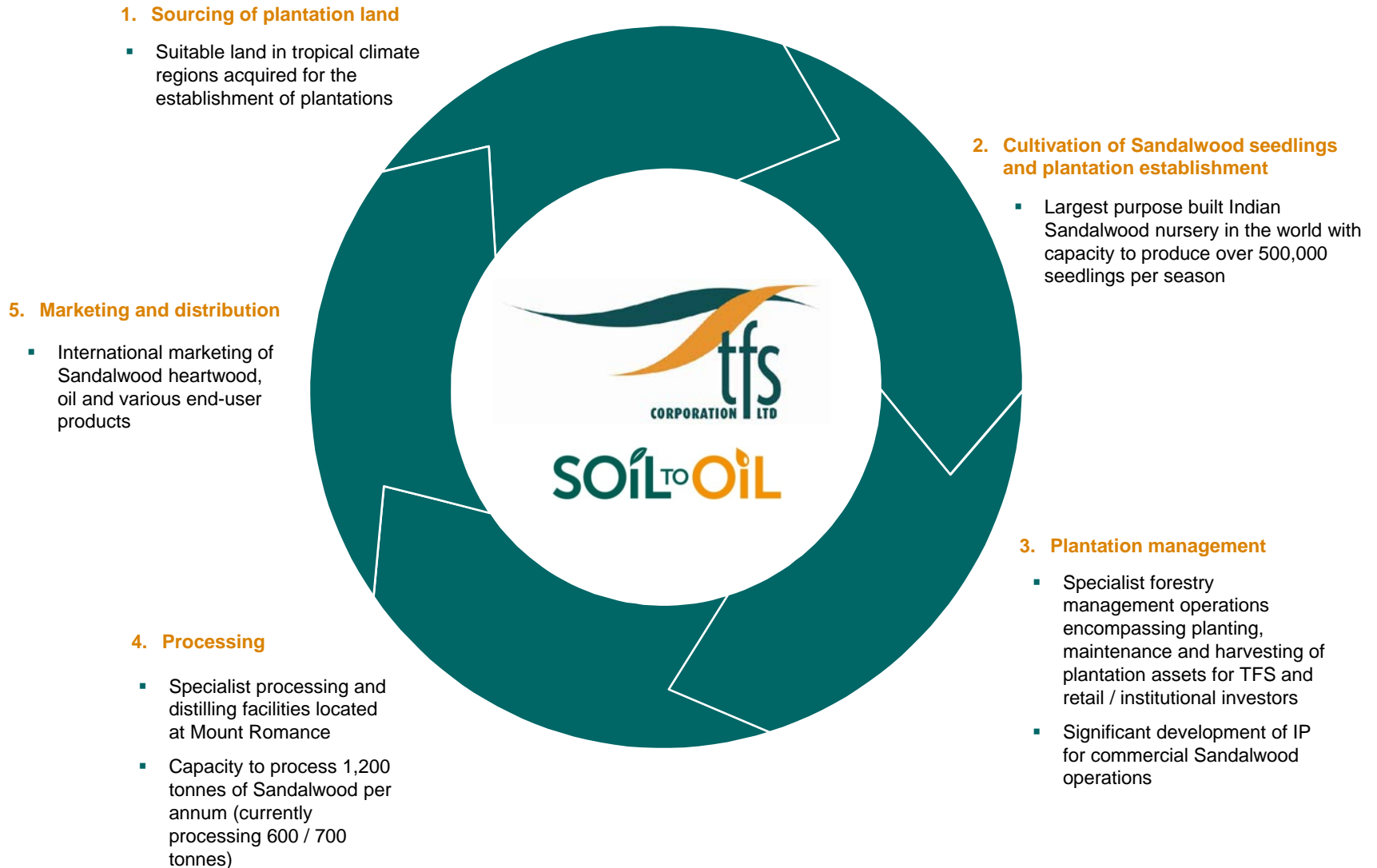
- Trial results confirm basic model assumptions that drive future production volumes
- Silvicultural management has progressed from a pioneering enterprise to a highly sophisticated operation with valuable IP
- First harvest expected to commence in calendar 2013

End Markets

- TFS will become a dominant global supplier
- Mt Romance processor and developer of end markets
- Sandalwood's wide range of products / markets are in long-term short supply
- Pharmaceutical market development increases
- Track record of achieving prices at premium to spot

An integrated business model

Control of supply and quality through 'soil to oil' approach



Why is TFS different?

Differences from Peers

- A single product specialist in a high margin commodity
- Fallen competitors were either low margin specialists or diverse agribusiness fund managers that stretched their balance sheets to mask failing projects
- TFS has a strong balance sheet with long-term financing that has no annual performance covenants
- Fallen competitors entered into commodity markets without bargaining power or appropriate strategic positioning. Sandalwood is a unique commodity market where TFS has a long-run first mover advantage
- Price maker and not a price taker
- Projects are designed to be cash flow positive and cash flows from discrete projects carry sufficient margin to fund themselves on a standalone basis
- Well placed to deliver returns to investors:
 - Managing MIS schemes since 1998
 - Raised over \$235m
 - First returns to be delivered in 2014

Strategic Differences

- The dominant operator in its sector globally, vertically integrating operations from soil to oil
- TFS interests are aligned with both growers and shareholders.
- In addition to management and Board plantation interests, TFS owns ~640 ha directly and plants each year to expand its own position.
- TFS owns over 20% of plantations directly and indirectly through its deferred interest component in past retail investment offerings
- TFS has now established:
 - A global customer base with major Fragrance industry brands – Givaudan, Estee Lauder, Lush & IFF
 - Access to the traditional Indian religious and cultural market
 - Access to the emerging opportunities in bi-product sales to China and India
 - Access to high volume high margin pharmaceutical markets through JV with ViroXis in the US
- Exhaustive level of due diligence undertaken by highly credible counterparties
 - The world's largest Sovereign Wealth Fund
 - One of the world's largest Endowment Funds
 - One of the world's largest bond investors

Plantation assets

Strategically located plantation assets across Northern Australia with significant land bank for future growth

- TFS:
 - Manages 6,500 ha of established Indian Sandalwood plantations
 - Owns 3,560 ha of unplanted land that will be developed and planted over the next 2-3 years
- Geographic Allocation
 - 5,551 ha (85%) in and around the Ord River Irrigation Area (East Kimberly, WA)
 - 670 ha (10%) in the Burdekin region (Queensland)
 - 290 ha (5%) in the Douglas Daly region (Northern Territory)
- Ownership Allocation (approx)
 - 20% - TFS (owned outright or implied interest)
 - 52% - Retail investors (15 years of projects)
 - 28% - Institutional investors

Geographically diversified plantation assets





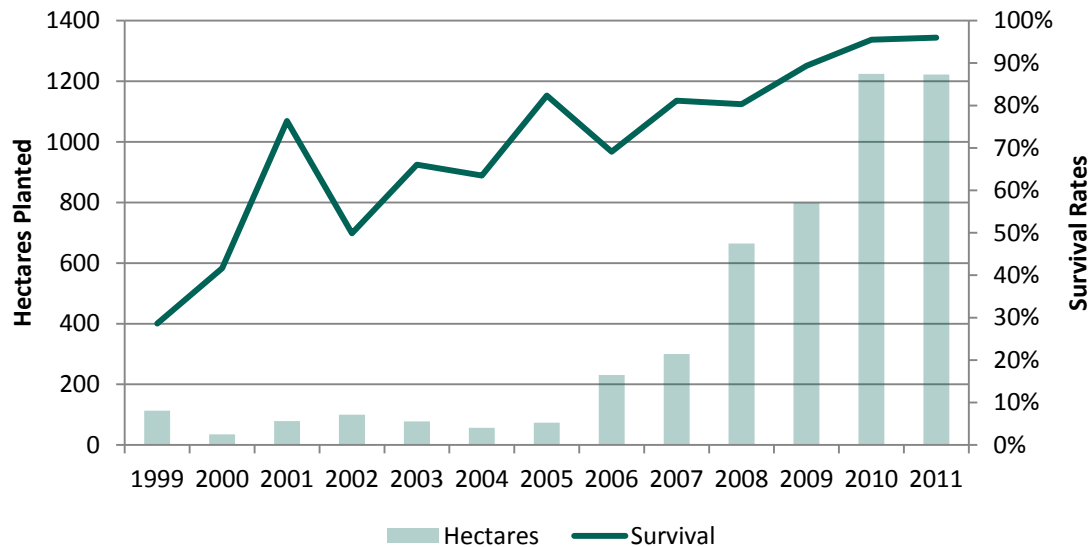
- Total permanent staff exceeding 50
 - Tertiary qualified staff in Forestry, Agriculture & Horticulture
 - 300 casual staff working alongside permanent staff in peak planting and pruning seasons
 - Weed control, irrigation, planting, pruning, & nursery propagation are all done manually
 - High internal capacity with minimal use of contractors
- Advanced IP in all facets of the business
- All infrastructure, plant and equipment in place to establish and manage up to 1,500 ha pa
- Tree breeding program:
 - Selection for early oil production, form and growth rate
 - Seed orchards developed from these selected trees
 - Progeny trials have shown increased height growth rate over non-selected stock
 - Evolving R&D program encompassing a range of activity to yield optimal productivity
- Harvest is expected to commence in 2013
- Forest Product Commission trials on 90 mature trees destructively tested, showed:
 - Mean Heartwood per Tree was 25 kg
 - Mean Oil Yield from Heartwood per Tree was 4.6%
 - Mean Oil Yield per Tree was 1.2Kg v 0.8kg TFS Target
- TFS believes its extensive investment and ongoing R&D program will result in trees that are superior in size and yield to the harvested trees

Plantation management expertise

Sandalwood specialists at TFS have continued to refine silviculture techniques

- Sandalwood plantations require expert management and meticulous maintenance processes to be able to effectively grow and harvest commercial quantities of oil from Sandalwood trees
- Plantation operations have been fine-tuned to maximise yield (ie: heartwood volume and oil content) and embedded value of plantations
- Silviculture techniques are constantly refined and result in a greater survival rate of trees and increased oil yields

Survival rates of TFS' Indian Sandalwood plantations over time



Competitive advantages

Intellectual property developed by TFS over 15+ years places significant barriers to entry in front of potential competitors

- Manager of the world's largest supply of sustainable Indian Sandalwood
- Significant financial and logistical restrictions in place for new global entrants – TFS has first mover advantage
- Replicating TFS' current market position would require c.17 years of investment
- Extensive intellectual property and expertise developed from more than 15 years of Indian Sandalwood silviculture
- Difficult to access commercial quantities of quality Indian Sandalwood seed
- High sovereign and security risks are evident in most acceptable climatic locations for Indian Sandalwood growth - except Australia
- Vertically integrated business model covering all aspects of Indian Sandalwood cultivation, growing, harvesting, oil processing and distribution
- Joint venture, supply and off-take agreements in place with end product users



What is Indian Sandalwood?

One of the worlds oldest traded commodities

- Traded commodity for over 2,000 years and declared a royal tree in India in 1792
- The value in Indian Sandalwood lies in the heartwood (currently trading at up to \$150-200 per kg) the inner most layer of timber that can also be distilled into oil (currently trading at \$4,000 per kg)
- Heartwood found at the core of Indian Sandalwood has a variety of applications and end markets
 - Heartwood timber is used for religious worship and ceremonies and in a wide range of wood-based consumer products
 - Heartwood distilled into premium quality oil for use in fine fragrances, beauty products, medicines and pharmaceutical applications, incense and flavouring agents for chewing products in India



Heartwood of Indian Sandalwood



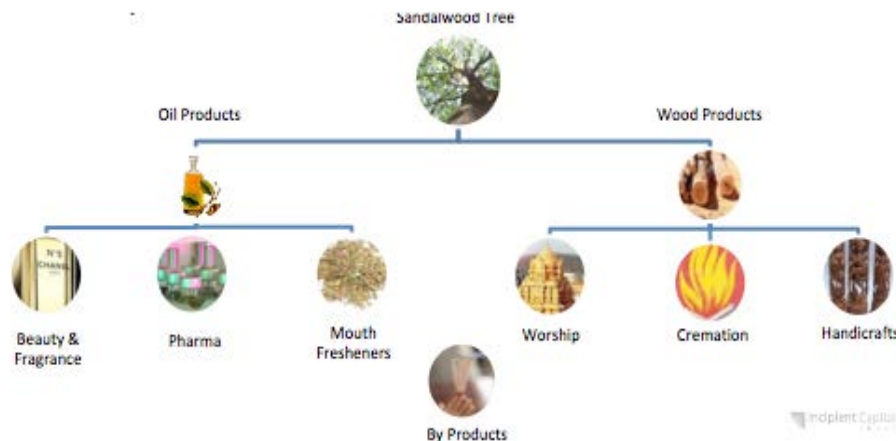
End products using Indian Sandalwood



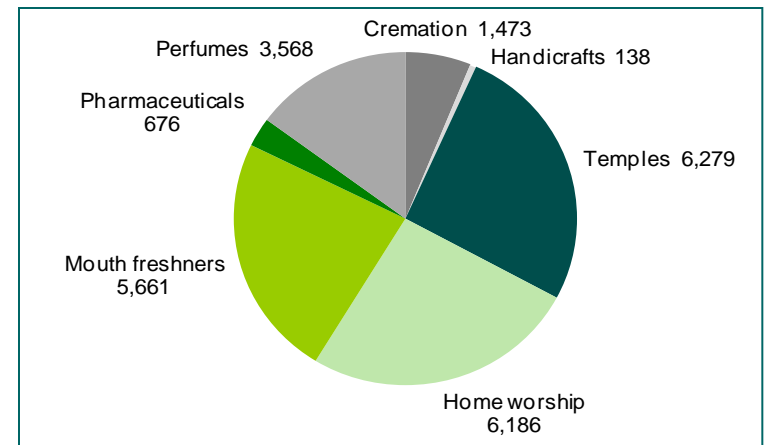
Demand

Significant historical demand for Indian Sandalwood heartwood and oil is expected to continue

- Global demand for Indian Sandalwood heartwood is currently estimated to be c.24,000 tonnes per annum
 - Demand for natural cosmetics utilising Indian Sandalwood oil is expected to grow between 10% to 15% per annum
 - New medical applications are being researched and developed with the assistance of TFS' joint venture partner Viroxis and others (annual demand for pharmaceuticals is anticipated to grow over 6 times by 2020)
 - Demand for Indian Sandalwood for cremation and other religious purposes in India and China is expected to remain strong
 - c.940 million Hindus in India with a mortality rate of approximately 6-7 million per annum
 - Indian middle-class expected to grow from 50 to 580 million by 2025 with concomitant increase in purchasing power



Annual Indian Sandalwood demand (heartwood tonnes)

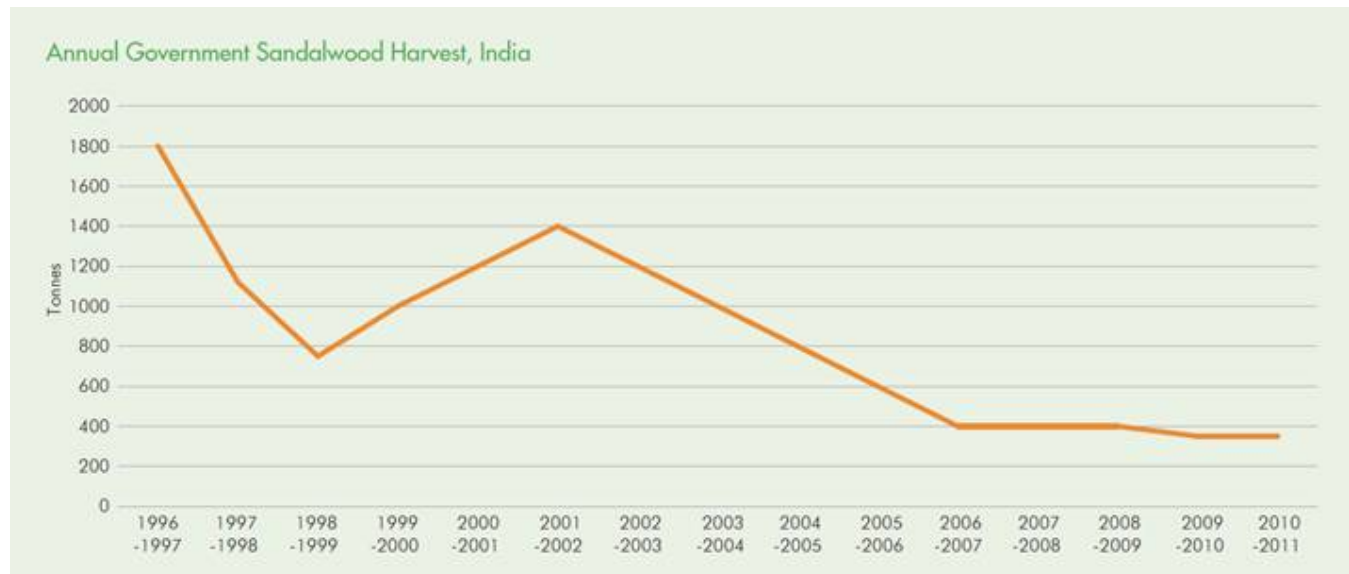


Supply

Depleted global supply with lack of commercial plantations

- Global supplies have been depleted through over harvesting of native stands and lack of a sustainable plantation industry
 - Indian Government has banned all exports as illegal harvesting has depleted natural resources
 - Indian Sandalwood is now recognised as a vulnerable species on the World Conservation Union's Red List
- As wood has become increasingly valuable, the amount of wood illegally harvested has grown and this has necessitated a restriction by the Indian Government of its annual harvests due to concerns over sustainability

Annual Indian government Sandalwood harvest

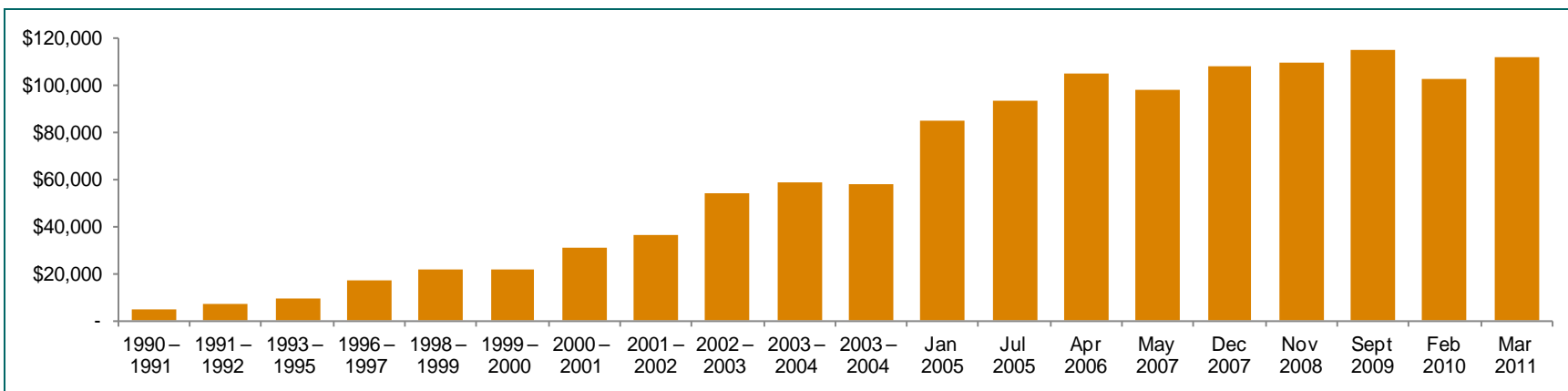


Source: Anantha Padmanabha, a forestry consultant with over 35 years experience in forestry in India

Pricing

- The resulting demand and supply imbalance has created a market opportunity for TFS, with the market value of Indian Sandalwood heartwood having increased by approximately 16.7% pa. since 1990¹
- The spot price of Indian Sandalwood heartwood in India has increased from A\$5,100 per tonne in 1990 to approximately A\$112,000 per tonne in 2011
- Indian Sandalwood pricing has historically outperformed inflation, with the supply crisis exacerbating price appreciation in recent years
- Independent research confirms that price increases of at least 5% per annum is achievable and sustainable for the foreseeable future

Historical pricing of Indian Sandalwood (A\$'000)



Source: Anantha Padmanabha (2012)

1. Calculated from the average auction price for wild heartwood in India which has risen from \$5,100 to \$112,000 per tonne

TFS Sandalwood Project 2013 - Details

Product Disclosure Statement (PDS)	TFS Sandalwood Project 2013 (ARSN: 161 604 806) PDS Date: 19 December 2012																				
Product Ruling	PR 2012/29																				
Lot & Project Size	1 lot = 1/12 th hectare (0.0833 ha) The project consists of 4,800 lots (400 ha) and any oversubscriptions.																				
Project Term	15 – 17 Years: <ul style="list-style-type: none">• 1 year establishment (land prep and planting)• 14 - 16 years in the ground																				
Harvest & Yield Information	<ul style="list-style-type: none">• Harvest at the age of 14 to 16, as per the Manager's discretion.• Assumed 35 Sandalwood trees per lot = survival rate of approx 83%																				
Establishment Fee, Upfront Annual Fee and Rent	<p>Must pay the Establishment Fee, Upfront Annual Fee & Upfront Rent on application.</p> <table><tr><th>Fees per Lot (GST Inc)</th><th>1-11 lots</th><th>12 + lots</th><th>Investor Protection</th></tr><tr><td>Establishment Fee</td><td>\$6,875</td><td>\$6,600</td><td>50% held in trust and released to TFS quarterly for establishment services.</td></tr><tr><td>Upfront Annual Fee & Upfront Rent</td><td>\$550</td><td>\$550</td><td>Held in trust and applied against year 14 annual fee and rent unless TFS becomes insolvent.</td></tr><tr><td>Total per lot</td><td>\$7,425</td><td>\$7,150</td><td></td></tr></table> <p>Payment via Arwon loans or in full via chq, credit card or direct debit.</p>			Fees per Lot (GST Inc)	1-11 lots	12 + lots	Investor Protection	Establishment Fee	\$6,875	\$6,600	50% held in trust and released to TFS quarterly for establishment services.	Upfront Annual Fee & Upfront Rent	\$550	\$550	Held in trust and applied against year 14 annual fee and rent unless TFS becomes insolvent.	Total per lot	\$7,425	\$7,150			
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Ongoing Annual Fee & Rent	<ul style="list-style-type: none"> First invoice is due 01 January 2015 and is invoiced annually. Fees are subject to a fixed increase of 3% per annum. <p>Annual Fee: \$412 per lot (\$374.55 + GST) Rent: \$138 per lot (\$125.45 + GST) TOTAL: \$550 per lot (\$500 + GST)</p> <ul style="list-style-type: none"> <u>Annual Investment Option</u>: grower elects to pay the ongoing Annual Fee and Rent on an annual basis through the life of the project. <u>Annual Deferred Investment Option</u>: grower elects (on an annual basis) to defer (not pay) the Annual Fee and Rent. Following deferral fee applies: <table border="1"> <thead> <tr> <th>Year of deferral</th><th>% of Gross Proceeds of Sale payable to TFS</th></tr> </thead> <tbody> <tr> <td>1 – 2</td><td>3% plus GST</td></tr> <tr> <td>3 – 4</td><td>2% plus GST</td></tr> <tr> <td>5 – 14</td><td>1% plus GST</td></tr> <tr> <td>Total</td><td>20% plus GST (if all years are deferred)</td></tr> </tbody> </table> <p>Investor Protection - The Annual Fee and Rent may become compulsory in the event of insolvency to facilitate the Project having sufficient funds available to meet the ongoing costs.</p>	Year of deferral	% of Gross Proceeds of Sale payable to TFS	1 – 2	3% plus GST	3 – 4	2% plus GST	5 – 14	1% plus GST	Total	20% plus GST (if all years are deferred)
Year of deferral	% of Gross Proceeds of Sale payable to TFS										
1 – 2	3% plus GST										
3 – 4	2% plus GST										
5 – 14	1% plus GST										
Total	20% plus GST (if all years are deferred)										
Plantation Insurance	<p>Not compulsory (unless indebted to Arwon Finance).</p> <p>TFS will insure the trees in the nursery and when planted against fire for 90% of their value at its cost until the end of the Establishment Period.</p>										
Commission	<p>Financial advisers receive a commission of 5% of the <u>Establishment Fee</u> only.</p> <p>No commission is paid on the Upfront Annual Fee and Upfront Rent.</p>										

Grower Protection



TFS continually updating investment product to add grower protection

ASIC Benchmark & Disclosure Principles

- ASIC Regulatory Guide 232 helps retail investors understand and assess agribusiness schemes
- Included for the first time in the PDS
- TFS will provide similar disclosures relating to past projects as part of its best practice initiative

Protections Prior to and During Planting

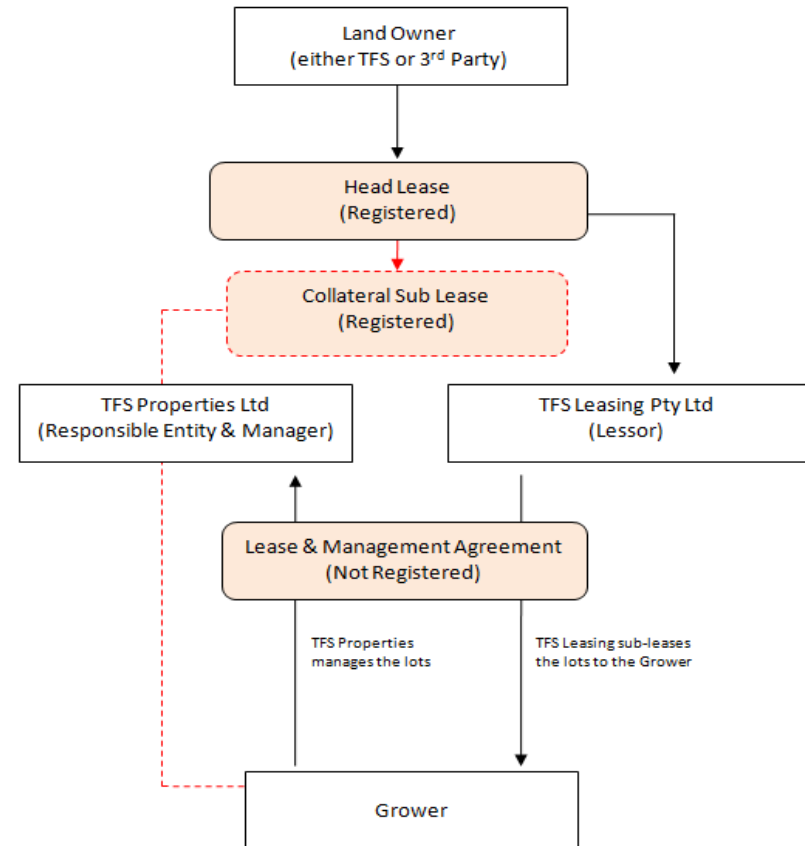
- 50% of Establishment Fee deposited with Independent Custodian and released progressively (ie: 25% per ¼ over a 12 month period) to ensure planting is completed

Protections Post Planting

- One year of lease and management fees paid up-front and deposited with Independent Custodian
- In the event of RE insolvency, these funds may be used to meet one year's management and lease costs, giving growers time to properly manage the replacement RE process whilst maintaining plantation quality
- If not required prior, funds will be released in the final year of the project to meet that years management costs and rent obligations
- Should an insolvency occur, the current annual fee deferral option may switch to become compulsory to ensure ongoing management costs can be met without placing undue financial obligations on the replacement RE

Investment Structure

- TFS Properties Ltd is the issuer of the PDS and Responsible Entity (RE)
- TFS Leasing Pty Ltd (the Lessor) will lease the relevant land from the land owner
- Investor / Grower sub-leases a woodlot from TFS Leasing. Each lot is identifiable by reference number on a plan of the plantation issued to Growers
- The Collateral sub-lease exists to ensure Grower interests can be registered on title
- The Responsible Entity:
 - › Establishes and maintains the plantation (appoints Tropical Forestry Services Ltd as the Project Manager)
 - › Supervises the harvesting and processing of trees into Cleaned Logs
 - › Markets and sells the Grower's interest in the Cleaned Logs for the maximum price obtainable.
- TFS has first right of refusal to acquire the Cleaned Logs



Protecting Growers Interests

- TFS has always registered its leases on property titles to ensure the grower's interest is directly acknowledged on title (via the Collateral Sub Lease)
- Former competitors typically only registered head leases which bore no specific relationship to the investor

Potential Investment Returns

Project subject to Independent Assessment by Adviser Edge

- Adviser Edge rates project at 4¼ Stars (out of 5) and in terms of returns considers “... there to be significantly more upside than downside risk, with relatively conservative forecasts assumed in our modelling.”¹
- Potential Returns: IRR 10.84% (Annual Investment Option) ¹
IRR 12.00% (Annual Deferred Investment Option) ¹
- Key Performance / Return Variables:
 - Survival Rate – % of trees that survive to harvest
 - Heartwood Price – The market / “farm-gate” price for “clean logs” of Indian Sandalwood heartwood
 - Heartwood Yield – kgs of heartwood per tree
 - Heartwood Price Inflation – The rate at which the price of heartwood is assumed to grow during the life of the investment

Variable	Adviser Edge Assumption	Comment
Survival Rate	83%	TFS currently achieving survival rates in the mid-90% range for its most recently planted trees
Heartwood Price	A\$49.17 / kg	Strong demand for Heartwood currently evident in the Chinese market in particular.
Heartwood Yield	24.72 kg / tree	TFS forecasting heartwood yields of 22.51 kgs per tree
Sandalwood Price Inflation	2.90% pa	Compound price growth well above inflation over the past 20 years. Independent forecasts of real price growth over next 10 years.

1. Adviser Edge, Independent Assessment, TFS Sandalwood Project 2013 (25 January 2013)

Financing the Investment

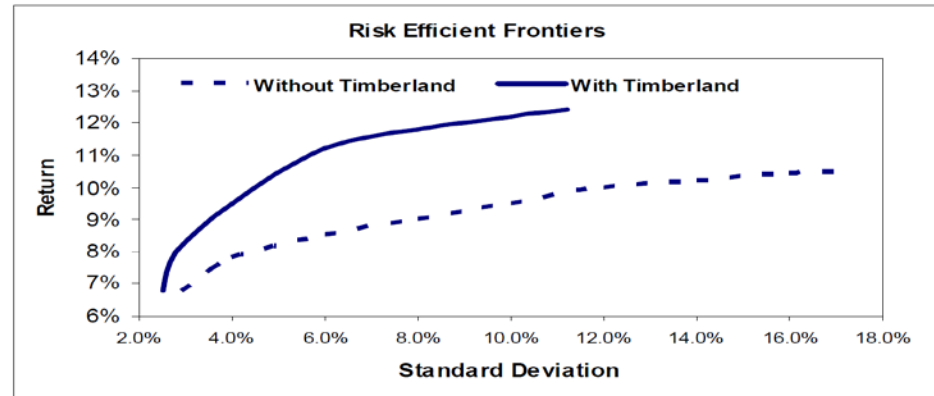
- For most of TFS's history, funding of grower establishment fees has occurred via TFS' balance sheet through its own finance company Arwon Finance Pty Ltd (Arwon)
 - 60% of applications occur through long-term finance
 - 40% of applications operate on a 12 month payment plan and cash payments
- Credit approval processes based upon normal bank lending criteria
- Quality loan book – 14 year history of low default rates. Arwon's default rate remains <2% despite the GFC
- 2013 Project Grower finance arrangements:

	12 Month Interest Fee Loan	Principal & Interest Loan
Min Deposit	20%	10%
Interest Rate	0%	10.95% Fixed
Term	1 year (July 2013 – June 2014)	Up to 7 years
Repayments	Deducted on 30 th day each month commencing July 2013	Deducted on 1 st day each month commencing August 2013
Loan Admin Fee	\$100	\$300 + 0.50% of the loan amt

Motivations of Investors

Why invest?

- Indian Sandalwood one of the world's oldest traded commodities with critical supply shortages
- Solid post tax IRRs – range of 10-12%¹ (based on conservative assumptions)
- 100% of investment tax deductible (ATO Product Ruling PR 2012/29)
- Portfolio diversification / enhancement:
 - › Academic studies suggest that a sound investment portfolio that has timber exposure will result in higher return and lower volatility
 - › Compare timberland returns to super fund performance
- Financial planning instrument
- Concessional Cap on superannuation contributions – especially for those aged below 50
- When combined with financing, has the effect of releasing cash which can be used for investment in other areas



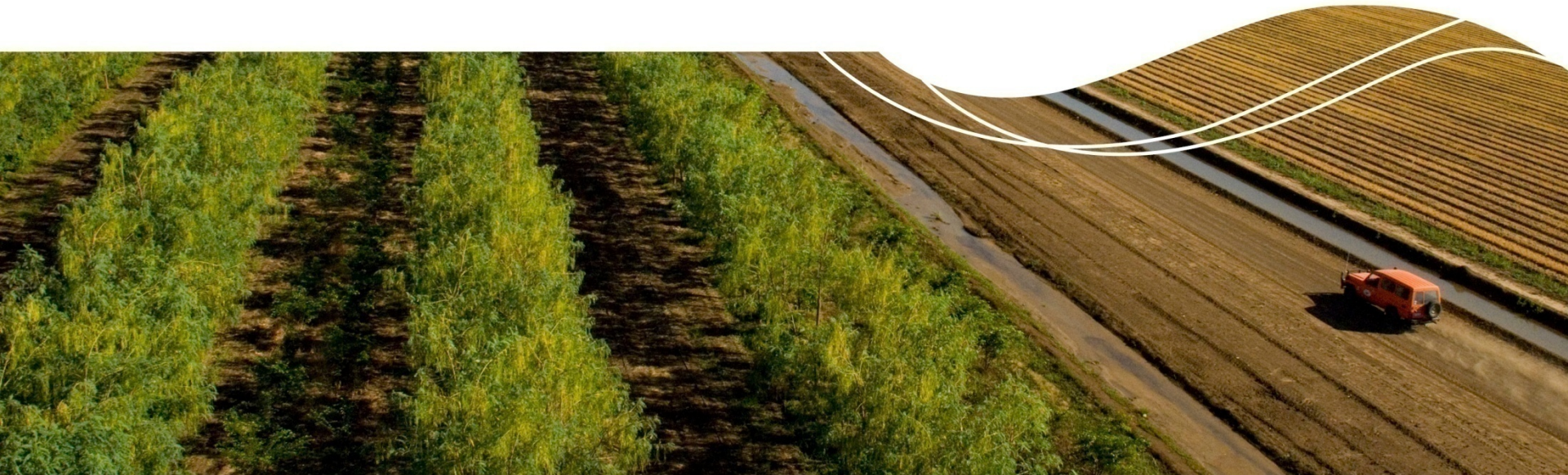
Source: Rhinehart, 2010, and others in both USA and Europe

Table 1: Diversified Fund Performance
Results to 31 January 2012

Fund Category	Growth Assets (%)	1 Mth (%)	FYTD (%)	1 Yr (%)	3 Yrs (% pa)	5 Yrs (% pa)	7 Yrs (% pa)	10 Yrs (% pa)
All Growth	100	3.6	-4.0	-5.1	8.5	-2.7	3.0	3.0
High Growth	81 – 100	3.0	-2.7	-2.5	8.0	-1.2	3.8	4.4
Growth	61 – 80	2.5	-1.4	-0.7	7.6	0.4	4.3	4.9
Balanced	41 – 60	1.9	0.3	1.8	7.5	1.7	4.5	5.2
Conservative	21 – 40	1.3	1.8	3.5	6.6	3.4	4.9	5.2

Source: Chant West

Case Studies



Case Study 1 – Converting Non-Deductable to Deductable Debt

Scenario

- Taxpayer earns \$250,000 pa. Primary asset is the family home. Mortgage of \$400,000 and several hundred thousand dollars equity in the home.
- He would like to pay down his home loan as quickly as possible and replace that non-deductible debt with deductible debt used to fund investments.

Strategy

- Taxpayer uses equity in home to raise an investment loan which can be used to acquire TFS lots (assume 10 lots for \$74,250 (ST inclusive)).
- Then use GST and income tax refunds from the investment to pay down home loan.

<i>Analysis</i>	Without TFS	With TFS
<u>Investment</u>		
GST inclusive cost of 10 TFS Lots	0	74,250
<u>Tax Benefits of Investment</u>		
GST refund	0	6,750
Income tax refund (@ 46.5%)	0	31,388
Total benefits	0	38,138
<u>Debts</u>		
Non-deductible debt - Home loan	400,000	400,000
Less reduction from tax benefits	0	(38,138)
Total	400,000	361,863
Deductible debt - TFS investment	0	74,250
Total Debt	400,000	436,113
<u>Annual Interest Cost</u>		
Interest cost (@ 6%)	24,000	26,167
Less tax refund on deductible part (@ 46.5%)	0	(2,072)
After tax interest cost	24,000	24,095

Benefits

- Taxpayer pays down \$38,138 in non-deductible debt.
- Total debt has increased by \$36,113, only.
- Annual after tax interest cost of servicing total debt just \$95 more than would otherwise be the case.

Why it Works!

- Taxpayer draws a loan for an income producing investment and the GST and tax refunds from that investment can be used to pay down non-deductible debt.
- Borrowing costs on the investment loan are fully tax deductible.

Case Study 2 – Managing a CGT Liability

Scenario

- Taxpayer earns \$180,000 pa. Sold an investment property during the year . Gross capital gain of \$100,000. 50% of gain taxable.
- Taxpayer would like to use the proceeds of the gain to renovate his home and make a further investment, but the after tax gain will be insufficient to undertake both.

Strategy

- Taxpayer can use equity in his home to raise an investment loan which can be used to acquire TFS lots (assume 6 lots for \$44,550 GST inclusive).
- The GST and income tax refunds from the investment will offset tax payable on the capital gain, meaning that the taxpayer can now use the gross proceeds of the gain to renovate his home.

<i>Analysis</i>	Without TFS	With TFS
<u><i>Investment</i></u>		
GST inclusive cost of 6 TFS Lots	0	44,550
<u><i>Tax Benefits of Investment</i></u>		
GST refund	0	4,050
Income tax refund (@ 46.5%)	0	18,833
Total benefits	0	22,883
<u><i>Capital Gain</i></u>		
Gross capital gain	100,000	100,000
Income tax payable on 50% (@ 46.5%)	(23,250)	(23,250)
After tax gain	76,750	76,750
Cash position after capital gain & investment	76,750	99,633
<u><i>Debts</i></u>		
Deductible debt - TFS investment	0	44,550
<u><i>Annual Interest Cost</i></u>		
Interest cost (@ 6%)	0	2,673
Less tax refund on deductible part (@ 46.5%)	0	(1,243)
After tax interest cost	0	1,430

Benefits

- The taxpayer has \$22,883 more cash to undertake home renovations than would otherwise be the case.
- The taxpayer's total debt has increased by \$44,550.
- The annual after tax interest cost of servicing total debt is only \$1,430 more than would otherwise be the case.

Why it Works!

- The taxpayer draws a loan for an income producing investment and the GST and tax refunds from that investment can be used to offset tax payable on the discount capital gain.
- The taxpayer is able to retain the gross proceeds of the gain for non-income producing purposes.
- Borrowing costs on the investment loan are fully tax deductible.

Case Study 3 – Managing a Division 7a Problem

Scenario

- Taxpayer operates a business through a private company and draws a salary of \$180,000 pa. He has borrowed \$200,000 from the company for private expenditure.
- Taxpayer has a Division 7A problem. The loan should be repaid by declaring and offsetting a fully franked dividend. However, the taxpayer would have to borrow to pay dividend top up tax.

Strategy

- The taxpayer can use equity in his home to establish an investment loan which can be used to acquire TFS lots (assume 12 for \$89,100 GST inclusive).
- The GST and income tax refunds from the investment will offset dividend top up tax, leaving the taxpayer in a cash neutral position.

<i>Analysis</i>	Without TFS	With TFS
<u><i>Investment</i></u>		
GST inclusive cost of 12 TFS Lots	0	89,100
<u><i>Tax Benefits of Investment</i></u>		
GST refund	0	8,100
Income tax refund (@ 46.5%)	0	37,665
Total benefits	0	45,765
<u><i>Franked Dividend</i></u>		
Dividend paid	200,000	200,000
Loan offset	(200,000)	(200,000)
Dividend top up tax (@ 23.57%)	(47,143)	(47,143)
Total cash cost	(47,143)	(47,143)
Cash position after dividend & investment	(47,143)	(1,378)
<u><i>Debts</i></u>		
Non-deductible debt	47,143	1,378
Deductible debt - TFS investment	0	89,100
Total	47,143	90,478
<u><i>Annual Interest Cost</i></u>		
Interest cost (@ 6%)	2,829	5,429
Less tax refund on deductible part (@ 46.5%)	0	(2,486)
After tax interest cost	2,829	2,943

Benefits

- Taxpayer has eliminated his Division 7A problem without having to incur non-deductible debt.
- Taxpayer's total debt is only \$43,335 more than would otherwise be the case.
- The annual after tax interest cost of servicing total debt is just \$114 more than would otherwise be the case.

Why it Works!

- The taxpayer draws a loan for an income producing investment and the GST and tax refunds from that investment can be used offset dividend top up tax.
- Borrowing costs on the investment loan are fully tax deductible.

Case Study 4 – Tax Effective Funding of Self Employed Superannuation Contributions

Scenario

- Taxpayer is self-employed, aged in his early 50's, and anticipates earning \$140,000 this financial year.
- He wants to make an annual concessional contribution to his super fund up to maximum limit, but will have insufficient cash to do so this financial year.
- The taxpayer can borrow to fund the contribution, but his accountant has advised him that finance costs on the loan will be non-deductible.

Strategy

- The taxpayer uses equity in his home to raise an investment loan which can be used to acquire TFS lots (assume 5 for \$37,125 GST inclusive).
- He can also redraw funds on his home loan and make a superannuation contribution (\$25,000).
- He can then use GST and income tax refunds from the investment and superannuation contribution to pay down his home loan.

<i>Analysis</i>	Without TFS	With TFS
<u><i>Investment</i></u>		
GST inclusive cost of 5 TFS Lots	0	37,125
<u><i>Tax Benefits of Investment</i></u>		
GST refund	0	3,375
Income tax refund (@ 38.5%)	0	12,994
Total benefits	0	16,369
<u><i>Self Employed Superannuation</i></u>		
Cash contribution	0	(25,000)
Income tax refund (@ 38.5%)	0	9,625
After tax cost	0	(15,375)
Net cash position after super & investment	0	994
<u><i>Debts</i></u>		
Non-deductible debt	0	(994)
Deductible debt - TFS investment	0	37,125
Total	0	36,131
<u><i>Annual Interest Cost</i></u>		
Interest cost (@ 6%)	0	2,168
Less tax refund on deductible part (@ 38.5%)	0	(858)
After tax interest cost	0	1,310

Benefits

- The taxpayer has contributed \$25,000 to his super fund.
- The taxpayer's total debt is only \$36,131 more than would otherwise be the case.
- The annual after tax interest cost of servicing total debt is only \$1,310 more than would otherwise be the case.

Why it Works!

- Section 26-80 of the ITAA97 denies a deduction for finance costs on loans to pay self-employed superannuation contributions.
- The taxpayer draws a loan for an income producing investment and the GST and tax refunds from that investment offset the after tax cost of the superannuation contribution.
- Borrowing costs on the investment loan are fully tax deductible.

TFS Sandalwood Project 2013 - Why?



- ✓ Underlying Commodity
- ✓ Multiple Markets for Multiple Products
- ✓ Historical growth in the value of Indian Sandalwood
- ✓ TFS's Market Position, Plantation Management Expertise & Barriers to Entry
- ✓ Enhanced Investor Protections
- ✓ Fully Tax Deductable Investment
- ✓ Immediate and Longer Term Wealth Management Tool

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